

# Audit



# Report

OFFICE OF THE INSPECTOR GENERAL

SMALL PURCHASES AT  
DEFENSE LOGISTICS AGENCY ORGANIZATION

Report No. 96-201

July 29, 1996

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Department of Defense

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### **Acronyms**

ANSI	American National Standards Institute
BPA	Blanket Purchase Agreement
EC/EDI	Electronic Commerce/Electronic Data Interchange
FACNET	Federal Acquisition Computer Network
FAR	Federal Acquisition Regulation
IMPAC	International Merchant Purchase Authorization Card
SASPS	Standard Automated Material Management System Automated Small Purchase System



**INSPECTOR GENERAL**  
**DEPARTMENT OF DEFENSE**  
**400 ARMY NAVY DRIVE**  
**ARLINGTON, VIRGINIA 22202-2884**



July 29, 1996

**MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY**

**SUBJECT: Audit Report on Small Purchases at Defense Logistics Agency  
Organizations (Report No. 96-201)**

We are providing this report for review and comment. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations and potential monetary benefits be resolved promptly. We request that the Defense Logistics Agency provide comments on Recommendations A. and B. concerning facilitating the use of purchase methods that are less costly than purchase orders and the consolidation of blanket purchase agreement invoices by September 26, 1996. We also request that the Defense Logistics Agency comment on the related potential monetary benefits.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Garold E. Stephenson at (703) 604-9332 (DSN 664-9332) or Mr. Eugene E. Kissner at (703) 604-9323 (DSN 664-9323). See Appendix H for the report distribution. The audit team members are listed inside the back cover.

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## Office of the Inspector General, DoD

Report No. 96-201  
(Project No. 5CH-0051)

July 29, 1996

### Small Purchases at Defense Logistics Agency Organizations

#### Executive Summary

**Introduction.** The Federal Acquisition Regulation authorizes the use of simplified acquisition (small purchase) procedures when making purchases that do not exceed the simplified acquisition threshold. Such procedures include blanket purchase agreement orders, purchase orders, imprest fund transactions, and purchases made with the International Merchant Purchase Authorization Card (IMPAC), a Government-wide commercial credit card. In FY 1994, procurements under \$25,000 (small purchases) accounted for 98 percent of the Defense Logistics Agency's 1.3 million contracting actions and 19 percent (\$1.9 billion) of the \$9.75 billion it spent for contracting. We reviewed small purchase actions made using simplified acquisition procedures.

**Audit Objective.** The overall objective was to determine whether the Defense Logistics Agency effectively managed small purchases. We also evaluated the adequacy of the management control program as it applied to administering small purchases.

**Audit Results.** The Defense Logistics Agency generally managed its small purchases effectively. However, some areas needed improvement.

- o Contracting officers awarded purchase orders to make small purchases when blanket purchase agreement orders or the IMPAC could have been used to make the purchases. Consequently, the Defense Logistics Agency incurred about \$1.9 million in excess costs to award purchase orders instead of blanket purchase agreement orders and incurred about \$7.4 million in excess costs to award purchase orders instead of using the IMPAC. Implementing the recommendations will reduce the number of purchase orders awarded, which will reduce costs by about \$78.3 million during FYs 1996 through 2001 (Finding A).

- o Contractors supplying items under blanket purchase agreement orders submitted invoices for payment after delivering the items instead of accumulating the invoices and submitting consolidated invoices monthly. Consequently, the Defense Finance and Accounting Service and ultimately, the Defense Logistics Agency incurred about \$5.9 million in additional costs to process unnecessary invoices. Implementing the recommendations will help the Defense Logistics Agency realize potential benefits of about \$49.8 million during FYs 1996 through 2001 (Finding B).

- o At seven of the eight organizations where we reviewed IMPAC purchases, the procedures needed improvement. As a result, the Defense Logistics Agency organizations had no assurance the items charged to the IMPAC were purchased by the actual cardholders or that the items were needed and received by the organizations (Finding C).

The management control program could be improved because we identified material weaknesses applicable to use of the IMPAC. See Finding C for a discussion of the weaknesses and Appendix A for a discussion of our review of the management control program. We did not make recommendations concerning the imprest fund cash balances because the Under Secretary of Defense (Comptroller) announced, in a memorandum dated March 28, 1996, that the use of imprest funds will not be authorized for any DoD activities within the continental United States (Appendix C). See Part I for a discussion of the audit results and Appendix F for a summary of all potential benefits resulting from the audit.

**Summary of Recommendations.** We recommend that the Defense Logistics Agency eliminate criteria that restrict the use of blanket purchase agreement orders and develop procedures that allow contracting officers to use the IMPAC for purchases for the DoD supply system. We recommend that contracting officers modify guidance in blanket purchase agreements to require that contractors submit consolidated invoices monthly. We also recommend that the Defense Logistics Agency issue guidance on approving and documenting purchases made with the IMPAC, use a standard form to control and document the purchases, and review simplified acquisition procedures as part of the management control program self-evaluation.

**Management Comments.** The Defense Logistics Agency nonconcurred with the recommendations to eliminate criteria in its automated purchasing system and to develop procedures that allow contracting officers to use the IMPAC for purchases for the DoD supply system. The Defense Logistics Agency stated that it is concentrating its resources on establishing long-term contracts for its purchases. Further, the use of blanket purchase agreement orders for certain items would require paper orders and changes to the system architecture. Management also stated that the reported potential monetary benefits from using blanket purchase agreement orders and the IMPAC instead of purchase orders were too high. The Defense Logistics Agency also nonconcurred with the recommendation that contractors submit consolidated invoices, stating that the problems created by consolidating the invoices would outweigh the estimated monetary benefits. The Defense Logistics Agency published a directive and a standard form to control and document IMPAC purchases and included a review of IMPAC purchases in its simplified acquisition self-evaluation. See Part I for a summary of management comments and Part III for the complete text of the comments.

**Audit Response.** As a result of the management comments, we reduced the amount of potential monetary benefits that could be realized from \$89.8 million to \$78.3 million if blanket purchase agreement orders and the IMPAC are used instead of purchase orders. The Defense Logistics Agency comments were responsive to the recommendations on controlling and documenting IMPAC purchases. For the reasons discussed in Part I, we maintain that the recommended actions are needed. We request that the Defense Logistics Agency provide additional comments on the unresolved recommendations by September 26, 1996.

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## **Part I - Audit Results**

### Audit Background

The Federal Acquisition Regulation (FAR) allows the use of simplified acquisition procedures designed to reduce administrative time and costs when making purchases that do not exceed the small purchase threshold (now called the simplified acquisition threshold). Those purchases are made with purchase orders, blanket purchase agreement orders, imprest funds, or the International Merchant Purchase Authorization Card (IMPAC).

The Federal Acquisition Streamlining Act of 1994, as amended by the National Defense Authorization Act for FY 1996, increased the simplified acquisition threshold from \$25,000 to \$100,000. If an agency does not deploy a full Federal Acquisition Computer Network (FACNET) capability by December 31, 1999, the simplified acquisition threshold for that agency becomes \$50,000. Full FACNET capability is achieved when an agency certifies that it has implemented all the electronic functions listed in FAR 4.504, "FACNET Functions," and that it has awarded more than 75 percent of eligible contracts during the preceding fiscal year using FACNET. As of February 29, 1996, the Defense Logistics Agency had not achieved full FACNET capability.

We reviewed procurement actions valued at less than \$25,000. In FY 1994, small purchases (less than \$25,000) accounted for 1,259,637 (98 percent) of the 1,284,132 contracting actions by Defense Logistics Agency organizations and \$1.9 billion (19 percent) of their \$9.75 billion contracting dollars. The small purchases included items for the DoD supply system and for Defense Logistics Agency housekeeping requirements.

**Purchase Orders.** A purchase order is an offer by the Government to buy specific supplies, services, or construction from a commercial source under specified terms and conditions for an aggregate amount not exceeding the simplified acquisition threshold. From November 1994 through April 1995, the Defense Logistics Agency awarded 214,605 purchase orders valued at \$470 million.

**Blanket Purchase Agreement Orders.** A blanket purchase agreement (BPA) order is an order for supplies or services issued against a BPA with a contractor. BPAs are agreements established with qualified contractors from whom numerous individual purchases will likely be made within a given period. The terms and conditions of BPAs include ordering procedures, a general description of the supplies or services available, a specified period of performance, a dollar limitation for each purchase, the payment terms and associated discounts, and a list of individuals authorized to make purchases under the BPA. The BPA also includes invoicing procedures that tell the contractor when and how to submit to the Government invoices for orders issued under the BPA. Contracting officers are required to review each BPA at least annually and, if necessary, to update the BPA at that time. Contracting officers are also required to review a random sample of BPA files at least annually to ensure that authorized procedures are being followed.

Generally, BPA orders are issued through automated purchasing systems or by telephone calls to BPA contractors. By using BPA orders, contracting officers can eliminate the need to award individual purchase orders or contracts to fill repetitive needs for supplies and services, thereby reducing administrative costs. Contracting officers can also reduce costs by reducing the number of payments for supplies and services. They can do so by requiring in BPAs that contractors accumulate individual invoices and submit a monthly summary invoice. From November 1994 through April 1995, the Defense Logistics Agency issued 158,433 BPA orders valued at \$77 million.

**IMPAC.** The IMPAC is a Government-wide commercial credit card established by the General Services Administration in 1989 to extend credit services to all Government agencies. The IMPAC contractor is Rocky Mountain BankCard System, Incorporated. The card is a standard VISA credit card recognized internationally and accepted wherever the VISA card is accepted.

The FAR encourages Government agencies to use the IMPAC to the maximum extent practicable for purchases not exceeding the \$2,500 micro-purchase threshold. Individual Government agencies may authorize use of the IMPAC to make purchases and payments up to \$100,000. The IMPAC may be used to order and pay for items purchased from contractors, to pay outstanding contracts, and to make and pay for inter- or intra-Government agency purchases.

The IMPAC is a less expensive alternative to traditional purchasing vehicles, such as purchase orders, BPA orders, and imprest funds. Each IMPAC holder's single purchase limit is established by a delegation of procurement authority from a contracting officer. The maximum single purchase limit that may be authorized is \$100,000. The Defense Logistics Agency has established a single purchase limit of \$2,500 for all its IMPAC cardholders. Additionally, a maximum monthly purchase limit is established for individual cardholders. From January through April 1995, the Defense Logistics Agency made 6,803 credit card purchases valued at \$2.1 million.

**Imprest Funds.** An imprest fund is a cash fund of a fixed amount established by an advance of cash from a finance officer to a designated cashier for disbursement as needed in making cash payments for relatively small purchases. Imprest funds are only to be established where advantageous to the Government. In June 1995, Defense Logistics Agency organizations had 91 imprest funds with a total value of \$106,000. Since that time, the Under Secretary of Defense (Comptroller) announced in his March 28, 1996, memorandum that the use of the imprest fund will not be authorized for any DoD activities within the continental United States.

## Audit Results

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### Audit Objectives

The overall objective of the audit was to determine whether the Defense Logistics Agency effectively managed small purchases. Specific objectives were to determine whether:

- o contracting officers were using the simplified purchasing procedure that was most efficient and effective for the circumstances of each small purchase;

- o contracting officers were following the FAR, the Defense Federal Acquisition Regulation Supplement, and Defense Logistics Agency guidance when establishing blanket purchase agreements, issuing purchase orders, and authorizing imprest fund transactions to make small purchases; and

- o approving officials, cardholders, and other personnel involved in the credit card program were following Defense Logistics Agency guidance for making and administering IMPAC purchases.

The audit also evaluated the adequacy of the management control program as it applied to the primary objective. See Appendix A for a discussion of the audit scope and methodology and the management control program. See Appendix B for a summary of prior coverage related to the audit objective and Appendix C for a discussion of imprest funds.

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## Finding A. Purchase Orders

Defense Logistics Agency contracting officers used purchase orders to make small purchases instead of using blanket purchase agreements or the IMPAC. Purchase orders were awarded for the following reasons.

- o The Defense Logistics Agency included restrictions in automated purchasing systems that precluded otherwise eligible items from being procured using existing BPAs.

- o The Defense Logistics Agency had not resolved certain processing issues that made contracting officers reluctant to use the IMPAC to purchase items for the DoD supply system.

As a result, the Defense Logistics Agency incurred additional administrative expenses of about \$1.9 million by awarding purchase orders instead of using existing BPAs and about \$7.4 million by awarding purchase orders instead of using the IMPAC. We estimated that for FYs 1996 through 2001, the Defense Logistics Agency could avoid administrative expenses of about \$16.3 million by using BPAs instead of purchase orders and about \$62 million by using the IMPAC instead of purchase orders.

### Awarding Purchase Orders

Defense Logistics Agency contracting officers did not fully comply with FAR 13.104, "Procedures," which states that contracting officers shall use the simplified acquisition procedure that is most suitable, efficient, and economical in the circumstances of each acquisition. The contracting officers awarded purchase orders to make small purchases when BPA orders and the IMPAC, both less expensive simplified acquisition procedures, could have been used for the small purchases.

We reviewed 408 purchase orders, 68 each at the Defense Construction Supply Center, the Defense Electronics Supply Center, the Defense General Supply Center, the Defense Industrial Supply Center, the Defense Personnel Support Center-Clothing and Textile, and the Defense Personnel Support Center-Medical. The contracting officers could have saved time and money by issuing orders under already existing BPAs for 64 of the 408 purchase orders and by using the IMPAC for 194 of the 408 purchase orders. Appendix D shows the level of occurrence at the six Defense Logistics Agency organizations for which we reviewed purchase orders.

## **Cost Differences Between Purchase Orders and Other Simplified Acquisition Procedures**

The difference is significant between the cost to process a purchase order and the cost to process a BPA order or IMPAC purchase. It costs \$124.50 to process a purchase order, whereas the cost to process a BPA order is \$72.55 and the cost to process an IMPAC purchase is \$40.43.

**Cost Difference Between Purchase Orders and BPA Orders.** In July 1994, the Defense Operations Research Office, Defense Logistics Agency, estimated that the average cost to Defense Logistics Agency organizations to process a purchase order was \$124.50 and that the average cost to process an order against an existing BPA was \$72.55. Using the Defense Logistics Agency cost figures, we determined that the Defense Logistics Agency would reduce costs about \$52 each time it issued an order against an existing BPA instead of awarding a purchase order.

**Cost Difference Between Purchase Orders and the IMPAC.** In September 1994, the Government Purchase Card Council, composed of representatives from 10 Federal agencies, estimated that the total cost of making and paying for a credit card (IMPAC) purchase was \$40.43. Using the Government Purchase Card Council \$40.43 cost estimate for processing a purchase made with the IMPAC and the Defense Logistics Agency \$124.50 cost estimate for processing a purchase order, we determined that the Defense Logistics Agency would reduce costs about \$84 each time it used the IMPAC for a purchase instead of awarding a purchase order.

## **Determining the Availability of a BPA**

Contracting officers could not always use existing BPAs because the Defense Logistics Agency included in the Standard Automated Material Management System Automated Small Purchase System (SASPS) criteria that restrict the use of BPA orders. In all 64 cases in which a purchase order was executed instead of an order against an existing BPA, the proposed purchase was screened by the SASPS and rejected for BPA purchase.

**SASPS Functions.** The SASPS checks each proposed small purchase against criteria that the Defense Logistics Agency has included in SASPS to determine whether the proposed purchase is eligible to be processed as a BPA order. The SASPS automatically generates an order against an existing BPA for a proposed purchase determined eligible for processing as a BPA order and automatically rejects a proposed purchase determined not eligible for processing as a BPA order. For example, the SASPS automatically rejects proposed small purchases valued at \$2,500 or more because competition is required for purchases of \$2,500 or more. The SASPS also automatically rejects proposed small purchases on the basis of other criteria that restrict the use of BPA orders.

**Criteria That Restrict the Use of BPA Orders.** The Defense Logistics Agency Manual 4715.1, "DLA Supply Manual," March 1993, lists 11 criteria that restrict the use of BPA orders. The most common criteria are items requiring inspection at the point of origin, items for direct shipment to the user, items that are on a qualified products list, items that contain precious metals, and emergency purchases. Proposed small purchases that are rejected by SASPS are processed manually and usually result in award of purchase orders.

## **Evaluating Criteria That Restrict the Use of BPA Orders**

Of the 64 proposed small purchases that SASPS automatically rejected for purchase by BPA orders, 21 were rejected because the items required inspection at the point of origin, 15 because the requirements were emergency in nature, and 8 because the items required shipment directly to the user. The remaining 20 BPA orders were rejected for various other criteria, such as that the items were on a qualified products list, contained precious metals, or had special routing instructions. Because \$52 of processing costs can be avoided by issuing a BPA order instead of a purchase order, the SASPS should be modified to include alternate procedures that allow use of BPA orders for items rejected by SASPS. If the SASPS cannot be modified, a purchase method that is less costly than purchase orders should be implemented to procure the items and to notify contractors and the Defense Contract Management Command of the requirement for inspection and acceptance at the contractors' facilities and the requirement to respond within 4 hours to emergency procurements. Also, the other criteria that restrict the use of BPA orders should be evaluated to determine whether the criteria can be eliminated. The Defense Logistics Agency had already eliminated two criteria and has experienced an increase in BPA orders issued and a decrease in purchase orders issued.

**Items Requiring Inspection at the Point of Origin.** The SASPS rejected 21 proposed small purchases for BPA order processing because the Defense Logistics Agency included in SASPS a criterion that prevents SASPS from generating BPA orders for items requiring inspection at the point of origin. The criterion was included in SASPS because SASPS does not generate documents to notify contractors and Defense Contract Management Command officials that the items require Government inspection and acceptance before shipping from the contractor facility. Defense Logistics Agency organizations award purchase orders to ensure that the contractor and the Defense Contract Management Command are notified of the Government inspection and acceptance requirements. We believe that the Defense Logistics Agency should modify SASPS so that the BPA orders generated by SASPS include the Government inspection and acceptance requirements when applicable. If it is not possible to modify SASPS, the Defense Logistics Agency should implement a procurement method that is less costly than purchase orders to obtain the items and to notify contractors and the Defense Contract Management Command of the inspection and acceptance requirements instead of manually processing purchase orders.

## **Finding A. Purchase Orders**

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**Emergency Purchases.** The SASPS rejected 15 proposed small purchases for BPA order processing because the Defense Logistics Agency included in SASPS a criterion that prevents SASPS from generating BPA orders for items requiring emergency processing. Under SASPS, contractors are required to respond within 10 working days as to whether the required items can be supplied. Defense Logistics Agency officials stated that procurements to meet emergency requirements must be completed within 4 hours. Therefore, Defense Logistics Agency organizations cannot wait for a contractor response through the SASPS. We believe that the Defense Logistics Agency should modify SASPS so that BPA orders generated by SASPS can be coded as emergency orders that require a contractor response within 4 hours when applicable. If it is not possible to modify SASPS, the Defense Logistics Agency should implement a procurement method that is less costly than purchase orders to obtain the items and to notify contractors and the Defense Contract Management Command of the requirement to respond within 4 hours to the emergency procurements.

**Criteria That Restrict the Use of BPA Orders Already Eliminated.** The Defense Logistics Agency had authorized the Defense Electronic Supply Center to remove from its SASPS two criteria that restrict the use of BPA orders. The Defense Electronics Supply Center determined that it was not necessary to prohibit the use of BPA orders to purchase items that contain precious metals and to purchase items that are on a qualified products list. After the Defense Logistics Agency removed the two criteria from SASPS in July 1995, the Defense Electronics Supply Center experienced a 91.4 percent increase in BPA orders processed (an increase of 1,450 BPA orders per month) and a corresponding decrease in purchase orders processed. Defense Electronics Supply Center officials estimated that the Defense Electronics Supply Center will avoid about \$1.3 million per year in processing costs because the two criteria were eliminated.

To further reduce the number of purchase orders awarded while BPAs exist, the Defense Logistics Agency should evaluate the other criteria incorporated in SASPS that restrict the use of BPA orders and eliminate all unnecessary criteria.

## **Processing IMPAC Purchases for the DoD Supply System**

From November 1994 through April 1995, Defense Logistics Agency organizations incurred about \$7.4 million of excess administrative expense by awarding 87,516 purchase orders instead of using the IMPAC to purchase items for the DoD supply system. As of January 1996, Defense Logistics Agency contracting officers were still awarding purchase orders rather than using the IMPAC to purchase items for the DoD supply system. The contracting officers are not using the IMPAC because processing issues concerning information needed for the DoD supply system have not been resolved. Questions have not been resolved concerning how to verify receipt and acceptance of items before certifying IMPAC statements for payment, what surcharge to DoD supply system customers should be added to the cost of the items, and how to build procurement histories for future planning and pricing. Officials at Defense

Logistics Agency headquarters stated that the Defense Logistics Agency is working on resolving the issues. However, the officials were unable to provide an estimated date when the issues will be resolved and when guidance will be provided to Defense Logistics Agency organizations on the use of the IMPAC to purchase items for the DoD supply system. In view of the potential monetary benefits of using the IMPAC instead of purchase orders, the Defense Logistics Agency should develop and provide to contracting officers procedures that meet the informational needs of the DoD supply system and allow use of the IMPAC to make purchases for the DoD supply system.

### Effects of Using Purchase Orders

The Defense Logistics Agency is incurring additional processing costs to award purchase orders instead of issuing BPA orders or using the IMPAC. We estimated that the Defense Logistics Agency could avoid excess processing costs of about \$16.3 million by issuing BPA orders instead of awarding purchase orders and about \$62 million by using the IMPAC instead of awarding purchase orders.

**Effect of Using Purchase Orders Instead of BPAs.** We estimated that the Defense Logistics Agency incurred unnecessary processing costs of about \$1.9 million from November 1994 through April 1995. Those costs were unnecessary because, based on our sample, we projected that about 37,148 of the 214,605 purchase orders could have been issued as orders against existing BPAs. We conservatively assumed that DoD budget reductions will result in a 10 percent per year decline in Defense Logistics Agency business activity (the Defense Logistics Agency estimated less than a 2 percent per year reduction in its budget) and calculated that, unless the Defense Logistics Agency eliminates from SASPS all unnecessary criteria that restrict the use of BPA orders, about 313,309 purchase orders will be awarded during FYs 1996 through 2001 that could have been processed as BPA orders. At \$52 per order, the potential monetary benefits of using BPA orders instead of purchase orders would be about \$16.3 million.

**Effect of Using Purchase Orders Instead of the IMPAC.** We also estimated that the Defense Logistics Agency incurred additional processing costs of about \$7.4 million from November 1994 through April 1995 because, based on our sample, we projected that about 87,516 of the 214,605 purchase orders could have been IMPAC purchases. Using our 10 percent decline in Defense Logistics Agency business activity, we calculated that, unless the Defense Logistics Agency develops procedures that permit use of the IMPAC to purchase items for the DoD supply system, about 738,115 purchase orders will be awarded during FYs 1996 through 2001 that could be processed as IMPAC purchases. At benefits of \$84 per order, potential monetary benefits of using the IMPAC instead of purchase orders would be about \$62 million.

## **Management Comments on the Finding and Audit Response**

**Defense Logistics Agency Comments on the Finding.** The Defense Logistics Agency partially concurred with the finding, stating that it agreed that too many individual purchase orders are awarded. However, the Defense Logistics Agency disagreed that it should facilitate the use of BPA orders and the IMPAC. The Defense Logistics Agency stated that it is engaged in a major transition of its overall logistics support philosophy and methodology. Rather than seeking more ways to automate a higher proportion of the retail quantity purchases, the Defense Logistics Agency is concentrating on establishing long-term contractual instruments for major groups of items or entire catalogs. Further, those arrangements are built around competitive source selection, electronic ordering and payment and reliance on commercial inventory and distribution instead of Government stock. This reoriented supply system allows the use of large purchase buying procedures to obtain better prices and service. The Defense Logistics Agency estimated it will save more than \$750 million during FYs 1996 through 2001 by converting to long-term contracts. The conversion to long-term contracts reduces the population of candidates for conversion from purchase orders to BPA orders and IMPAC purchases.

**Audit Response.** We agree that use of long-term contracts would reduce the population of purchase orders for conversion to BPA orders and IMPAC purchases. However, we cannot determine the extent to which the new purchasing method was implemented or the effectiveness of the long-term contracts in reducing the number of purchase orders awarded and order processing costs. Our audit sample did not include any of the long-term contracts, and the Defense Logistics Agency did not provide any information on the number of long-term contracts it has in place, the time and cost to award the contracts, or the time and costs to process orders and payments against the contracts. We believe that the Defense Logistics Agency can avoid unnecessary administrative costs by using orders against existing BPAs and the IMPAC instead of purchase orders to make small purchases. The Defense Logistics Agency should change the SASPS and develop procedures that facilitate the use of BPA orders and the IMPAC until the Agency can determine whether its long-term contracts are effective and when purchase orders, BPA orders, and IMPAC purchases can be eliminated.

**Cost Comparison for Conversion From Purchase Orders to IMPAC Purchases.** The Defense Logistics Agency stated that the cost comparison that we used to calculate the potential benefits for conversion from purchase orders to IMPAC purchases was invalid. The costs for processing purchase orders that the Defense Logistics Agency provided to the auditors included the costs of item manager review, technical and quality referrals, preaward survey, contract administration, quality assurance, and depot receiving; the costs for processing IMPAC purchases that we obtained from another source did not include those costs.

## Finding A. Purchase Orders

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The Defense Logistics Agency further stated that the BPA costs we used were for the hardware centers only, while the purchase order costs included the Defense Personnel Support Center. Comparing the same universe reduces purchase order cost to \$124.50 and total projected savings by \$11.8 million.

**Audit Response.** The cost comparison we used to determine the difference between the cost to process a purchase order and the cost to process an IMPAC purchase was valid because we included all identified cost elements for processing both a purchase order and an IMPAC purchase. We obtained the estimated cost to process an IMPAC purchase from the Government Purchase Card Council. The Government Purchase Card Council estimate of \$40.43 included the costs for defining the requirement; preparing the requisition; obtaining funding authorization; administratively reviewing the requisition; determining required sources; contacting sources; documenting selection of sources; receiving, inspecting, and accepting actions; verifying the cardholder statement; following up on late statements; reconciling disputed items; and approving the statement for payment.

In response to the Defense Logistics Agency comments, we changed its average cost to process a purchase order from \$135.69 to \$124.50 by excluding the Defense Personnel Support Center-Clothing and Textile purchase order processing cost (\$216) and the Defense Personnel Support Center-Medical purchase order processing cost (\$100) from our calculation of the revised Defense Logistics Agency average cost (\$124.50) to process a purchase order. As a result, we reduced the potential monetary benefits from \$89.8 million to \$78.3 million if BPA orders and the IMPAC are used instead of purchase orders. We request that the Defense Logistics Agency comment on the revised benefits in response to the final report.

## **Recommendations, Management Comments, and Audit Responses**

**A. We recommend that the Director, Defense Logistics Agency:**

**1. Facilitate the use of blanket purchase agreement orders and other methods less costly than purchase orders for procuring items meeting the simplified acquisition threshold. Specifically, do the following.**

**a. Modify the Standard Automated Material Management System Automated Small Purchase System to allow blanket purchase agreement orders to be generated that include requirements for Government inspection and acceptance at the point of origin. If the Standard Automated Material Management System Automated Small Purchase System cannot be so modified, then**

**b. Implement a procurement method that is less costly than purchase orders to procure the items and to notify contractors and the Defense Contract Management Command of the requirement for inspection and acceptance at the contractors' facilities.**

**c. Modify the Standard Automated Material Management System Automated Small Purchase System to allow blanket purchase orders to be generated that include emergency requirements. If the Standard Automated Material Management System Automated Small Purchase System cannot be so modified, then**

**d. Implement a procurement method that is less costly than purchase orders to procure the items and to notify the contractors and the Defense Contract Management Command of the requirement to respond within 4 hours to the emergency procurements.**

**e. Evaluate other criteria incorporated in the Standard Automated Material Management System Automated Small Purchase System that restrict the use of blanket purchase agreement orders and eliminate all unnecessary criteria.**

**Management Comments.** The Defense Logistics Agency nonconcurred, stating that its time, talent, and resources are focused on moving away from a logistics support system based on generating hundreds of thousands of small purchases, especially noncompetitive automatic BPA orders. The Defense Logistics Agency stated that an unpublished Defense Logistics Agency study showed that the price of items obtained by purchase orders averaged about 18 percent less than the price of the same items purchased through the automated BPA system and that just a 5 percent increase in item prices would offset the monetary benefits (\$19.7 million) identified in the audit report.

Further, the use of automated BPA orders for origin inspected purchases, Defense Contract Management Command administered orders, and emergency procurements would be especially difficult to implement because paper copies of the orders would have to be mailed to the Defense Contract Management Command, thereby eliminating a significant portion of the monetary benefits. Also, the Defense Logistics Agency would have to create a new data field for "place of inspection." Further, in regard to emergency purchases, the Defense Logistics Agency's automated BPA system is not designed to react in 4 hours. The overall system architecture would have to change to allow the orders.

**Audit Response.** We appreciate that the Defense Logistics adopted a new logistics support philosophy that requires its supply centers to concentrate on establishing long-term contracts for major groups of items instead of making small purchases with purchase orders, BPA orders, and the IMPAC. However, the Defense Logistics Agency did not indicate how the new purchasing method is reducing the number of purchase orders awarded and the order processing costs. Our proposals are doable over the next 5 years and save money immediately. The Defense Logistics Agency should, at a minimum, do some of the computer program changes while pursuing long term contracts. Our proposals free time for contracting officers to pursue long term contracts.

We do not understand the Defense Logistics Agency rationale in paying 18 percent more for items purchased on automated BPA orders than paying for the same items procured on purchase orders. If that were the case, the BPAs would have been either improperly established or improperly administered. The FAR states that contracting officers should establish BPAs with firms that are dependable and consistently lower in price than other firms dealing in the same items and that, to the extent practicable, should place BPAs for items of the same type with more than one supplier. All competitive sources should be given an equal opportunity to furnish the items under BPAs. The FAR also requires that BPAs contain a statement that prices to the Government shall be as low or lower than those charged the supplier's most favored customers. Further, the FAR requires that contracting officers that enter into BPAs maintain awareness of changes in market conditions, sources of supply, and other pertinent factors that may warrant making new arrangements with different suppliers or modifying existing arrangements. We believe that properly established and administered BPAs will yield prices that are as low as or lower than prices on purchase orders. Additionally, using BPAs eliminates the need to award a separate purchase order for each purchase requirement, thereby reducing administrative time and costs for both contracting and finance and accounting personnel.

The Defense Logistics Agency comments on using automated BPA orders for origin inspected purchases, Defense Contract Management Command administered orders, and emergency procurements contain no new information that would cause us to change our conclusion that the Defense Logistics Agency should eliminate from the SASPS all unnecessary criteria that restrict the use of BPA orders. As discussed in the finding, significant reductions in processing costs can be achieved by issuing orders against existing BPAs instead of awarding purchase orders. If the Defense Logistics Agency determines that it cannot modify the SASPS to eliminate the restrictive criteria, the Defense

## **Finding A. Purchase Orders**

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Logistics Agency should use procedures that are less costly than mailing copies of BPA orders or awarding purchase orders. For example, the Defense Logistics Agency could modify a BPA to identify items requiring inspection at origin instead of mailing copies of each order for the items to the contractor and the Defense Contract Management Command. For emergency purchases, the Defense Logistics Agency could contact the BPA contractor by telephone or electronic mail to complete the procurement within 4 hours instead of seeking another source and awarding a purchase order. We request that the Defense Logistics Agency reconsider its position and provide additional comments on the recommendation in response to the final report.

### **2. Develop and provide to contracting officers procedures that:**

- a. Meet the information needs of the DoD supply system.**
- b. Allow the use of the International Merchant Purchase Authorization Card to purchase items for the DoD supply system.**

**Management Comments.** The Defense Logistics Agency nonconcurred, stating that its efforts are focused on developing long-term contracts. The Defense Logistics Agency stated that the IMPAC system is not designed for use in the central wholesale supply system but rather for local retail purchasing. Development of programming and procedures to facilitate its use for central supply system purchases would serve little purpose other than to privatize the Defense Finance and Accounting Service payment function.

**Audit Response.** We disagree that using the IMPAC for DoD supply system purchases would serve only to privatize the payment function. Using the IMPAC also reduces the number of purchase orders awarded and avoids processing costs. We estimated that using the IMPAC to purchase items for the DoD supply system during FYs 1996 through 2001 would reduce the number of purchase orders awarded by about 738,115 and avoid about \$62 million in excess processing costs. Further, a recent draft report from the Deputy Under Secretary of Defense (Acquisition Reform) and the Under Secretary of Defense (Comptroller) on use of the IMPAC recommends the Deputy Secretary of Defense provide guidance to DoD Components to encourage use of IMPAC with a goal of 100 percent use for purchases under \$2,500. The recommendation was made because of the cost benefits of using IMPAC. We request that the Defense Logistics Agency reconsider its position and provide additional comments on the recommendation in response to the final report.

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## **Finding B. BPA Contractor Invoices**

Contractors supplying items under BPA orders issued by Defense Logistics Agency organizations submitted an invoice after each delivery instead of accumulating the invoices and submitting a monthly consolidated invoice. That situation occurred because contracting officers included invoicing guidance in the BPAs that was confusing and allowed BPA contractors to submit invoices upon delivery of the items ordered. As a result, from November 1994 through April 1995, the Defense Finance and Accounting Service, to whom the invoices were submitted for payment, incurred excess costs of about \$5.9 million for processing 158,433 invoices instead of the 7,446 invoices that would have been processed if the contractors accumulated the invoices and submitted monthly consolidated invoices. The Defense Finance and Accounting Service recovers the cost of processing invoices from its customers, including the Defense Logistics Agency. We calculated that from FYs 1996 through 2001, the Defense Logistics Agency organizations could realize potential benefits of about \$49.8 million by requiring BPA contractors to submit monthly consolidated invoices.

### **BPA Invoicing Guidance**

Guidance in FAR part 13, "Simplified Acquisition Procedures," provides standard statements that contracting officers may include in BPAs. The statements require contractors to accumulate individual invoices and to submit a monthly consolidated invoice for payment. The FAR guidance also includes billing procedures that permit contractors to submit an individual invoice for each delivery to be accumulated by the Government and paid monthly. However, the FAR states that contracting officers should not include in BPAs the procedures that allow contractors to submit an invoice after each delivery if consolidation of the invoices by the Government increases the cost to the Government of processing invoices for BPA purchases. Further, the FAR requires contracting officers placing BPA orders to review a sufficient random sample of the BPA files to ensure that authorized procedures are being followed by BPA contractors.

### **Cost of Processing BPA Invoices**

Officials at the Defense Financing and Accounting Service Center in Columbus, Ohio (Columbus Center), stated that during FY 1995, it cost \$39.10 to process a BPA invoice for payment and that cost was recovered from customers. The officials also stated that established procedures at the Columbus Center require

## **Finding B. BPA Contractor Invoices**

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that BPA invoices be processed for payment as soon as practicable after receipt. Invoices received from each BPA contractor are not accumulated by the Columbus Center for a single monthly payment to each contractor.

### **BPA Contractor Invoices**

Contractors with BPAs issued by Defense Logistics Agency organizations submitted individual invoices for payment after delivering the items ordered under the BPAs. The contractors submitted individual invoices instead of accumulating the invoices for monthly submission because invoicing guidance in the BPAs permits individual invoices and because individual invoices result in quicker payments for items delivered.

**BPA Contractors Submitting Individual Invoices.** We reviewed 408 BPA orders, 68 each at 6 Defense Logistics Agency organizations and discussed contractor invoicing and Defense Finance and Accounting Service payment procedures with officials at the Columbus Center. Also, we traced 136 of the 408 BPA orders through Columbus Center records and confirmed that the Defense Finance and Accounting Service made individual payments for each BPA order.

**Guidance in BPAs Allows Submission of Invoices After Each Delivery.** The invoicing guidance that Defense Logistics Agency organizations included in BPAs allows contractors to submit invoices after delivering the supplies or services ordered, but is confusing. The Defense Construction Supply Center, the Defense Electronics Supply Center, and the Defense General Supply Center guidance state in BPAs that contractors should submit invoices as soon as possible after delivery, but not less than monthly. However, the guidance also states that itemized invoices must be submitted for transactions shipped during the monthly billing period. The Defense Industrial Supply Center guidance requires contractors to submit invoices for each order completed, but does not specify when the invoices should be submitted. The Defense Personnel Support Center-Clothing and Textile guidance states that an itemized invoice shall be submitted at least monthly, but also states that invoices can be submitted after each shipment or on a monthly basis. The Defense Personnel Support Center-Medical guidance provides for individual invoices after each delivery using the standard FAR language that indicates the invoices will be accumulated by the Government and paid monthly. The annual reviews of random samples of BPA files that the contracting officers performed did not cover invoicing procedures.

We believe that the confusing guidance, coupled with the incentive of quicker payment, prompted contractors to submit invoices for each delivery instead of accumulating the invoices and submitting a monthly summary invoice. Defense Logistics Agency contracting officers should review their BPAs and modify the invoicing guidance therein to make it clear that contractors are required to accumulate invoices and to submit a monthly consolidated invoice to the Defense Finance and Accounting Service for payment. The contracting officers

should also include a review of invoicing procedures in their annual reviews of BPA files to ensure that contractors are following the authorized invoicing procedures.

### **Effect of BPA Contractors Submitting Invoice After Each Delivery**

From November 1994 through April 1995, the six Defense Logistics Agency organizations for which we reviewed BPAs issued 158,433 BPA orders valued at \$77.4 million against the 1,241 BPAs that were in effect during the period. Because BPA contractors submit an invoice for each order delivered, the Defense Finance and Accounting Service processed 158,433 invoices for payment--about 150,987 invoices more than necessary--resulting in \$5.9 million in additional processing costs. If the BPA contractors accumulated the invoices and submitted monthly consolidated invoices, the Defense Finance and Accounting Service would have processed a maximum of 7,446 invoices (1,241 invoices each month) during the 6-month period, and the Defense Logistics Agency would have avoided the \$5.9 million charge. We conservatively assumed that DoD budget reductions will result in a 10 percent per year decline in Defense Logistics Agency business activity and calculated that the Defense Logistics Agency will issue 1,336,232 BPA orders during FYs 1996 through 2001. Unless the contracting officers modify invoicing guidance in their BPAs to require contractors to consolidate invoices and submit a monthly summary invoice, we calculate that the contractors will submit 1,273,434 unnecessary invoices to the Defense Finance and Accounting Service for processing. At \$39.10 per invoice, the avoidable processing cost would be \$49.8 million.

### **Management Comments on the Finding and Audit Response**

**Defense Logistics Agency Comments on the Finding.** The Defense Logistics Agency nonconcurred with the finding, stating that requiring consolidated monthly invoicing would represent a step backward. The Defense Logistics Agency stated that consolidated monthly invoicing for automated BPA orders is neither as simple nor as beneficial as portrayed in the report. Single order invoicing facilitates the use of electronic commerce/electronic data interchange (EC/EDI), which conforms to American National Standards Institute (ANSI) X12 standards for EC/EDI.

The Defense Logistics Agency stated that most of its BPA holders are small businesses many of which would encounter a cash flow hardship if forced to wait up to 60 days (30 days to billing and 30 days for disbursement) to receive payment. Further, some of the newer contractual arrangements for commercial products purchased by electronic ordering call for 15-day payment terms.

## Finding B. BPA Contractor Invoices

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**Audit Response.** Consolidated monthly invoicing is not a step backward. The FAR requires that either the BPA contractors or the Government accumulate individual invoices for monthly payment. Also, we are unaware of any provisions in the ANSI X12 standards and their implementation conventions that make it easier to use EC/EDI for an invoice that covers a single order than for an invoice that covers several orders. In practice, invoicing for each order that the Defense Logistics Agency supply centers issue daily may slow down or backlog the EC/EDI system and could result in additional costs to the trading partners who usually are charged for each EC/EDI transaction. In any event, it is unlikely that widespread use of EC/EDI for ordering and invoicing will occur before the year 2000. As of May 31, 1996, only about 1,800 of the Government's potential 300,000 EC/EDI trading partners were registered in the central contractor registry. Also, in June 1995, the Defense Finance and Accounting Service stated that only a few of the Defense Finance and Accounting Service customers or the customers' contractors will be EC/EDI capable and usually only for small portions of the system. None of the invoices discussed in the finding were processed by EC/EDI. Since EC/EDI is not working well in DoD and solutions are not imminent, the Defense Logistics Agency should implement our recommendations or start using the IMPAC instead of BPAs.

We are unable to comment on the Defense Logistics Agency statement that most of its BPA contractors are small businesses that would encounter cash flow problems if forced to bill on a monthly basis because we did not analyze the business status and finances of the BPA contractors. However, the FAR notes that BPAs are usually established with commercial firms from which numerous purchases of a wide variety of goods will be made in a given period. Presumably, those firms would be financially capable of a monthly billing and payment cycle. The Defense Logistics Agency statement that some of its newer contractual arrangements call for 15-day payment terms has no relevance to the payment terms and invoicing guidance in the existing BPAs. Additionally, payment terms usually refer to when or how quick the Government will pay the invoices, not to when or how often the invoices are submitted.

**Defense Finance and Accounting Service Price Per Invoice.** The Defense Logistics Agency stated that our calculation of monetary benefits from consolidated invoicing assumes a constant Defense Finance and Accounting Service price per invoice regardless of the number of line items, lines, orders, or BPA orders on each invoice. The Defense Logistics Agency further stated that the assumption is invalid, because total Defense Finance and Accounting Service operating costs are divided by the number of invoices processed to obtain the cost per invoice. Reducing the number of invoices, but increasing the amount of work per invoice to reconcile multiple lines or orders will not result in a straight line decrease in costs. The Defense Logistics Agency stated that the Defense Finance and Accounting Service fixed and semivariable operating costs would be spread over a smaller number of invoices, increasing the cost per invoice. The variable cost would also increase for the more complex invoices. The Defense Logistics Agency agreed that some monetary benefits would result, however, that a straight line calculation is far too

optimistic. The Defense Logistics Agency further stated that concentration on reengineering the payment process to use automated and electronic procedures would appear to have a much better payback.

**Audit Response.** We agree that our estimated monetary benefit of \$49.8 million from consolidating BPA invoices assumes a constant Defense Finance and Accounting Service price per invoice. We also agree that reducing the number of invoices but increasing the amount of work per invoice may not result in a straight line decrease in costs. However, the Defense Logistics Agency did not provide cost data or an alternate method for estimating the amount of the potential benefits from consolidating the invoices. In the absence of specific cost data or an alternate method for estimating the cost avoidance, we believe that our estimate of obtaining benefits of \$49.8 million by requiring BPA contractors to submit monthly consolidated invoices is reasonable. The Defense Finance and Accounting Service billing rate structure, published in August 1995, shows a \$39.10 billing rate for processing a Defense Logistics Agency invoice, regardless of the number of orders included in the invoice and regardless of whether the invoice is processed manually or electronically.

Additionally, Defense Finance and Accounting Service Columbus officials stated that contractor invoices with multiple orders do not result in a straight line increase in the amount of work per invoice. It takes more time to process multiple invoices with one order per invoice than it does to process one invoice for multiple orders. When the Defense Logistics Agency BPA contractors submit monthly consolidated invoices, the Defense Finance and Accounting Service work load will decrease and Defense Finance and Accounting Service management will have to make appropriate adjustments to personnel and overhead costs. We believe that these adjustments will more than offset any increase in the Defense Finance and Accounting Service costs to process an invoice resulting from spreading operating costs over fewer but more complex invoices.

## **Recommendations, Management Comments, and Audit Response**

**B.** We recommend that the Director, Defense Logistics Agency, issue guidance for contracting officers to:

1. Modify invoicing guidance in their blanket purchase agreements to make it clear that contractors are required to accumulate invoices and submit consolidated invoices monthly to the Defense Finance and Accounting Service for payment.
2. Include a review of invoicing procedures in their annual reviews of random samples of blanket purchase agreement files to validate that contractors are following the authorized invoicing procedures.

## **Finding B. BPA Contractor Invoices**

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**Management Comments.** The Defense Logistics Agency nonconcurred, stating that the problems created by the proposed change (see management comments on the finding) would outweigh the potential monetary benefits, which are overstated in the report.

**Audit Response.** For the reasons discussed in the audit response to the Defense Logistics Agency comments on the finding, we do not agree that having BPA contractors submit consolidated invoices as required by the FAR creates problems that outweigh the potential monetary benefits. We request that the Defense Logistics Agency reconsider its position and provide additional comments on the recommendation in response to the final report.

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## **Finding C. Compliance With Guidance for IMPAC Purchases**

The eight Defense Logistics Agency organizations for which we reviewed IMPAC purchases were generally managing the purchases efficiently and effectively. However, at seven of the eight organizations, the procedures for processing the purchases needed improvement. The procedures needed improvement because IMPAC cardholders did not always comply with guidance from the Defense Logistics Agency and their own organizations on obtaining purchase approval and documenting purchase and receipt of items charged to the IMPAC. Additionally, some organizational-level guidance was not clear concerning documentation required for IMPAC purchases. As a result, the Defense Logistics Agency organizations had no assurance that items charged to the IMPAC were purchased by the actual cardholders or that the items were needed and received by the organization.

### **Guidance for IMPAC Purchases**

**General Services Administration Guidance.** In 1989, the General Services Administration awarded the first contract for the IMPAC and provided initial guidance to Government agencies for IMPAC purchases. The General Services Administration published updated guidance in GUSH-23F-94031, "Governmentwide Commercial Credit Card Service Contract Guide," April 1994. Each Government agency implemented the General Services Administration guidance and added any restrictions and controls on use of the IMPAC that the agency considered necessary.

**Defense Logistics Agency Guidance.** The Defense Logistics Agency published agency-wide guidance in Defense Logistics Agency Manual 4105.3, "DLA Governmentwide Commercial Credit Card Manual," October 1990. The manual includes general guidance for obtaining the IMPAC, using the IMPAC to purchase items, funding and accounting for IMPAC purchases, and safeguarding the IMPAC. The eight Defense Logistics Agency organizations we visited had all supplemented guidance in the manual with organizational-level guidance.

### **IMPAC Purchase Procedures**

We reviewed 1,871 randomly selected IMPAC purchases, valued at \$587,781, at 8 Defense Logistics Agency organizations. The organizations were generally following the guidance concerning the use of the IMPAC. However, the

## Finding C. Compliance With Guidance for IMPAC Purchases

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guidance on obtaining approval for IMPAC purchases and documenting the purchases was generally not followed, and the guidance needed clarification.

**Procedures Tested.** We tested the IMPAC purchases for compliance with 12 procedures for processing IMPAC purchases selected from applicable Defense Logistics Agency and organizational-level guidance. One procedure is no longer applicable because the Federal Acquisition Streamlining Act of 1994 removed the requirement that purchases under \$2,500 be from small businesses.

**Procedures Generally Followed.** For 8 of the 12 procedures tested, we identified 59 instances when applicable guidance was not followed. We attributed the few instances of noncompliance to oversights caused by a lack of experience with use of the IMPAC, not to any systemic problem with the guidance or controls over IMPAC purchases. For example, we found 40 instances when the merchant charged sales taxes on IMPAC purchases, even though the Federal Government is exempt from State and local taxes. The cardholders did not require that the merchants omit the taxes. We believe that similar oversights will not occur after IMPAC cardholders and merchants become more familiar with use of credit cards for Government purchases.

Defense Logistics Agency organizations generally complied with the following eight procedures.

- o Provide the required training on the use of the IMPAC to cardholders and approving officials.
- o Obtain an availability of funds certification before making a purchase.
- o Do not make unauthorized purchases with the IMPAC.
- o When possible, purchase items from required sources of supply such as Federal Supply Schedules, Federal Prison Industries, and the National Industries for the Blind and Severely Handicapped instead of from commercial sources.
- o Do not exceed the \$2,500 micro-purchase threshold for single IMPAC purchases.
- o Do not split requirements exceeding \$2,500 into several purchases to permit purchase with the IMPAC.
- o Ensure that the merchant does not charge State and local sales taxes on IMPAC purchases.
- o Ensure that monthly IMPAC statements from Rocky Mountain BankCard System, Incorporated, are certified by the cardholder and approving official before submission to the Defense Finance and Accounting Service for payment.

## **Finding C. Compliance With Guidance for IMPAC Purchases**

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**Procedures Not Always Followed.** For the other three procedures tested, the incidence of noncompliance indicated a need for improvements in the guidance concerning the procedures.

At seven of the eight Defense Logistics Agency organizations, we identified cardholder noncompliance with the three procedures below.

- o Obtain approval for the purchases.
- o Document that the purchases were made.
- o Document receipt of the items purchased.

At the Defense Technical Information Center, the cardholders obtained approval and appropriately documented the IMPAC purchases.

The results of tests on the three procedures are summarized here, and the results for each of the eight Defense Logistics Agency organizations where we reviewed IMPAC purchases are shown in Appendix E.

- o Prior approval of the purchase by the requester's supervisor or the approving official was not present for 324 (17 percent) of the 1,871 purchases.

- o Evidence, in the form of a sales slip or telephone log, that the cardholder actually made the purchase, was not present for 762 (41 percent) of the purchases.

- o Evidence that the requester or representative received the goods or services on behalf of the Government was not present for 670 (36 percent) of the purchases.

## **Compliance with Procedures for IMPAC Purchases**

Some of the problems with use of the IMPAC can be attributed to a lack of experience of cardholders and merchants with the relatively new concept of using a credit card to purchase items for the Government. However, the problems of cardholders not following applicable guidance on obtaining purchase approval and documenting the purchase and receipt of items can be attributed to inadequate management controls. Controls to ensure compliance were not adequate, and the organizational-level guidance issued by the Defense Logistics Agency organizations was not clear or consistent. Consequently, the organizations used a variety of procedures and forms to document the purchases.

## **Finding C. Compliance With Guidance for IMPAC Purchases**

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**Controls and Organizational-Level Guidance.** Controls to ensure that IMPAC cardholders obtained purchase approval and documented the purchase and receipt of items were not adequate at seven of the eight Defense Logistics Agency organizations. The Defense Technical Information Center used a form that provided the needed controls.

The guidance issued by the Defense Logistics Agency organizations included procedures for processing IMPAC purchases, but the guidance was not consistent or clear. For example, two of the eight organizations required advance approval of IMPAC purchases by supervisory personnel, one organization required both supervisory and approving official approval, and still another organization required approving official or alternate approval. The organizational-level guidance at the other four organizations did not state who should approve the IMPAC purchases. Additionally, although the organizational-level guidance at six of the eight organizations required documentation of the receipt of the items purchased before the cardholder could authorize payment for a purchase, the guidance did not specify who should acknowledge receipt of the items. Organizational-level guidance at the other two organizations did not mention documentation of receipt.

**Forms to Control and Document IMPAC Purchases.** The eight Defense Logistics Agency organizations where we reviewed IMPAC purchases used various forms to control and document IMPAC purchases. Only the Defense Technical Information Center had a form that was easy to use and provided the necessary controls to ensure that IMPAC purchases were properly approved and documented.

The various forms used by the other seven Defense Logistics Agency organizations had no place for the cardholder to state that he or she initiated the purchase (in person or by telephone) and no place for anyone to acknowledge receipt of the goods or services purchased. Cardholders at five of the eight organizations prepared a separate page of telephone log for each telephone purchase instead of maintaining a continuous log and frequently failed to record the purchases. Receipt of goods or services purchased, when recorded, was documented at various spots on the form used by the particular organization. Occasionally, receipt of services, such as repair work, was documented by requester signature on a contractor document. Each of the eight Defense Logistics Agency organizations had a place on its form for supervisory approval of the purchase, but the approving signature was often not obtained or the form was signed by the requester or cardholder.

**Defense Technical Information Center Form.** Cardholders at the Defense Technical Information Center appropriately obtained approval and documented the purchase by the cardholder and the receipt of items by the requester. The Defense Technical Information Center used a two-sided, single-page form with blanks for documentation of advance approval of the purchase by both a supervisor and the approving official, receipt and acceptance of the supplies or services, and several other items such as justification for the purchase and any special approvals required. The form also requires the cardholder to state whether mandatory sources of supply were considered and to record the date that he or she initiated the purchase. Use of the form ensures that the steps

## **Finding C. Compliance With Guidance for IMPAC Purchases**

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necessary to effect and properly document an IMPAC purchase are carried out. Use of the form also facilitates review and approval for payment by cardholders, approving officials, and finance and accounting officials of the monthly IMPAC statements from Rocky Mountain BankCard System, Incorporated. The Defense Logistics Agency should adopt the form used by the Defense Technical Information Center or develop a similar form for use by all Defense Logistics Agency organizations.

### **Following Guidance for IMPAC Purchases**

Because cardholders did not obtain approval for purchases and did not document the purchase and receipt of the items, the Government had no assurance that the items charged to the IMPAC were needed, were actually purchased by the cardholders, or were received by the requester. Although we did not identify any intentional misuse of the IMPAC, we were unable to state that no misuse occurred. When purchases were made without obtaining approval, no assurance existed that the items purchased were needed and would have been approved for purchase if management had reviewed them before purchase. When purchases made by telephone were not documented, no assurance existed that the purchases were made by the authorized cardholder and not some unauthorized person. When the persons (or their authorized representatives) who requested that the items be purchased did not sign a receipt for the items, no assurance existed that the officials needing the items received the items and that the Government did not pay for items not received. Additionally, the lack of documentation of approval of the purchase and receipt of items put the cardholder in a position to initiate, receive, and pay for a purchase without any real checks by any other person. Also, without documentation of the approval, purchase, and receipt of items charged to the IMPAC, the approving official had no basis and the cardholder had only his or her memory as a basis for certifying for payment the monthly IMPAC statements from Rocky Mountain BankCard System, Incorporated.

### **Increased Use of IMPAC**

The Defense Logistics Agency use of the IMPAC is increasing significantly. In January 1995, the Defense Logistics agency made 1,175 purchases valued at \$341,477 with the IMPAC. In January 1996, the Defense Logistics Agency made 2,615 purchases valued at \$882,379 with the IMPAC. As the use of the IMPAC increases, the need for effective management controls becomes greater.

## **Finding C. Compliance With Guidance for IMPAC Purchases**

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### **Conclusion**

The Defense Logistics Agency organizations were generally managing purchases made with the IMPAC in an efficient and effective manner. However, improvements in control and documentation procedures are needed to gain reasonable assurance that abuse of the IMPAC will be prevented.

Uniform guidance for obtaining purchase approval and for documenting the purchase and receipt of items is needed, along with a common, easy-to-use form to control and document the purchases. Coupled with in place procedures, those controls will help to prevent abuse of the IMPAC and will help to streamline the purchasing process.

### **Recommendations, Management Comments, and Audit Response**

#### **C. We recommend that the Director, Defense Logistics Agency:**

- 1. Issue guidance to Defense Logistics Agency organizations requiring supervisory approval of International Merchant Purchase Authorization Card purchases, cardholder documentation that the purchases were initiated, and requester receipt of the items purchased.**

- 2. Adopt the form used by the Defense Technical Information Center or develop a similar form for use by Defense Logistics Agency organizations to control and document International Merchant Purchase Authorization Card purchases.**

- 3. Review simplified acquisition procedures as part of the management control program self-evaluation.**

**Management Comments.** The Defense Logistics Agency concurred, stating that it accomplished Recommendations C.1. and C.2. by publishing Defense Logistics Agency Directive 4105.3, "DLA Governmentwide Commercial Purchase Card Program," on October 13, 1995, and issuing Defense Logistics Agency Form, "Request for Supplies/Services," in April 1996. Additionally, the Defense Logistics Agency provides the recommended guidance to cardholders during training sessions and conducts Procurement Management Reviews to ensure compliance with the guidance. On Recommendation C.3., the Defense Logistics Agency stated that credit card purchases are part of its simplified acquisition self-evaluations and that by July 31, 1996, it will issue a letter reminding all buying activities that their self-evaluations must include credit card purchases.

## **Part II - Additional Information**

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## Appendix A. Scope and Methodology

### Audit Scope

The audit covered the simplified acquisition procedures that Defense Logistics Agency organizations used to make purchases valued at less than \$25,000. The simplified acquisition procedures included purchase orders, blanket purchase agreement (BPA) orders, the International Merchant Purchase Authorization Card (IMPAC), and imprest funds.

**Limitation to Scope.** We reviewed only small purchases made with purchase orders, BPA orders, the IMPAC, and imprest funds--the four simplified acquisition procedures defined in the Federal Acquisition Regulation. We did not review purchases made with indefinite delivery contracts or purchases that may have been made using electronic commerce procedures, with the following exceptions: purchases made with BPA orders in our audit sample that were made through the Paperless Ordering Procurement System and the Standard Automated Material Management System.

During the first 9 months of FY 1995, small purchases using procedures other than purchase orders, BPA orders, the IMPAC, or imprest funds accounted for about \$488 million (32 percent) of the \$1.5 billion contracting dollars. Not reviewing the purchases made with those procedures had no effect on the results of the audit.

**Universe Information.** We obtained the audit universe information on purchase orders, BPA orders, and IMPAC purchases from the Defense Logistics Agency. We obtained universe information on imprest funds from the Defense Finance and Accounting Service Center in Columbus, Ohio.

**Statistical Sampling Methodology.** Members of the Quantitative Methods Division, Office of the Assistant Inspector General for Auditing, DoD, developed the statistical sampling plan for the audit. Their work included statistically selecting the audit locations and the number of small purchases to be examined at each location, as well as projecting the audit results for purchase order transactions.

**Sampling Plan.** An objective of the audit was to determine whether the Defense Logistics Agency was managing small purchases effectively by using the simplified purchasing procedure that was most efficient and effective for the circumstances of each small purchase. In support of that objective, the Quantitative Methods Division personnel selected random samples of purchase orders, BPA orders, and IMPAC purchases. Those personnel also made

## Appendix A. Scope and Methodology

statistical projections of the purchases made with purchase orders that would have been more appropriate for blanket purchase agreement orders and IMPAC purchases.

**Audit Universe.** The purchase order universe was 214,605 purchase orders, valued at \$470 million, awarded by 6 Defense Logistics Agency organizations from November 1994 through April 1995. The BPA universe was 158,433 BPA orders, valued at \$77 million, awarded by the 6 Defense Logistics Agency organizations from November 1994 through April 1995. The universe for IMPAC purchases was 6,803 purchases, valued at \$2.1 million, made by 21 Defense Logistics Agency organizations from January through April 1995.

**Audit Samples.** Random samples of 408 purchase orders valued at \$731,000, and 408 BPA orders valued at \$353,000, 68 each at each of the 6 organizations, were selected for general review (Appendix D). A random sample of 1,871 IMPAC purchases, valued at \$587,781, at 8 organizations was selected for general review (Appendix E).

**Purchase Order Universe.** The purchase order universe consisted of all small purchases made by purchase orders at six Defense Logistics Agency organizations during the 6-month period November 1994 through April 1995 as shown in table A-1.

**Table A-1. Purchase Order Universe**

<u>Organization</u>	<u>Number of Purchase Orders</u>
Defense Construction Supply Center	51,258
Defense Electronics Supply Center	56,160
Defense General Supply Center	43,913
Defense Industrial Supply Center	43,726
Defense Personnel Support Center-Clothing and Textile	7,774
Defense Personnel Support Center-Medical	11,774
<b>Total</b>	<b>214,605</b>

**Purchase Order Sample.** We randomly selected samples of 68 purchase orders at each of the six Defense Logistics Agency organizations. We used a cluster sampling plan as the sample design for this audit by treating each organization as a cluster and used ratio estimation methodology for projections over the universe.

## Appendix A. Scope and Methodology

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**Sample Results.** Statistical projections for the purchase orders issued during the 6-month period November 1994 through April 1995 were calculated by using 90-percent confidence levels and are shown in Table A-2.

**Table A-2. Statistical Sample Results**

<u>Method</u>	<u>Point Estimates</u>	<u>Bounds on Errors</u>	
		<u>Lower</u>	<u>Upper</u>
BPA More Appropriate	37,148	29,637	44,660
Credit Card More Appropriate	87,516	78,024	96,993

The projections indicate that we are 90-percent confident that between 29,637 and 44,660 of the small purchases made from November 1994 through April 1995 by issuing purchase orders were more appropriate for BPAs. The point estimate, 37,148, is the most likely number of BPA orders recommended over the population for that time period.

Likewise, we are 90-percent confident that between 78,024 and 96,993 of the purchases made from November 1994 through April 1995 by issuing purchase orders were more appropriate for IMPAC purchases. The point estimate, 87,516, is the most likely number of IMPAC purchases recommended over the population for that time period.

## Audit Methodology

At the Defense Logistics Agency organizations, we interviewed procurement officials and examined purchase orders, BPA orders, IMPAC purchases, and imprest fund transactions to determine whether the procurement officials used the most efficient and effective simplified acquisition procedure applicable to each purchase. We also determined whether the procurement officials complied with applicable regulations for awarding purchase orders, issuing blanket purchase agreement orders, making IMPAC purchases, and authorizing imprest fund transactions. Additionally, we interviewed imprest fund custodians to evaluate the need for the cash balances maintained in the imprest funds.

**Audit Period and Standards.** We performed this economy and efficiency audit from May 30, 1995, through February 29, 1996, in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary. Appendix G lists the organizations we visited or contacted.

**Use of Computer-Processed Data.** We used computer-processed universe data provided by the Defense Logistics Agency to determine the audit universe for purchase orders, BPA orders, and IMPAC purchases.

**Reliability of Computer-Processed Data.** We assessed the reliability of the data in the universe data bases concerning the identification and dollar amounts of the transactions. We determined that the purchase order numbers, the BPA order numbers, the IMPAC cardholder names, and the dollar amounts of the transactions generally agreed with the identification and dollar amounts on the orders and IMPAC cardholder statements. We did not find errors concerning the identification and dollar amounts that would preclude the use of the computer-processed data to meet audit objectives or that would change the conclusions in the audit report.

### Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of Review of the Management Control Program.** We reviewed the adequacy of management controls over small purchases at the Defense Logistics Agency organizations. Specifically, we examined management controls over the selection of simplified acquisition procedures for purchases under \$25,000 and the management controls over approving and documenting purchases made with the IMPAC. We also reviewed the adequacy of management's self-evaluation of management controls.

**Adequacy of Management Controls.** We identified material weaknesses as defined by DoD Directive 5010.38. The Defense Logistics Agency had not implemented adequate management controls over IMPAC purchases to validate that items purchased with the IMPAC were needed, were purchased by the actual cardholders, and were received by the requester. Recommendations in Finding C in this report, if implemented, will assist in correcting the weaknesses. The benefits of implementing the recommendations in Finding C and all benefits that may be realized by implementing the other recommendations in this report are described in Appendix F. A copy of the report will be provided to the senior official responsible for management controls in the Defense Logistics Agency headquarters.

**Adequacy of Management's Self-Evaluation.** Defense Logistics Agency officials did not identify simplified acquisition procedures, including use of the IMPAC, as an assessable unit and, therefore, did not identify or report the material management control weaknesses identified by the audit.

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## **Appendix B. Summary of Prior Audits and Other Reviews**

### **Inspector General, DoD**

**Report No. 95-291, "Consolidated Report on the Cash Accountability in the Department of Defense, Disbursing, Imprest, and Change Funds," August 8, 1995.** The report states that cash balances are maintained in excess of operational requirements, which has cost the U.S. Treasury unnecessary interest expenses. The cash maintained in excess of operational requirements amounted to \$15.3 million. That situation may have cost the U.S. Treasury \$2 million in unnecessary interest expenses from FYs 1994 through 1999. Also, DoD cannot ensure that there is a continuing need for the more than 1,000 imprest funds maintained. The report recommends that the DoD strengthen its management of cash resources by implementing more effective cash management practices. The report also recommends that cash verifications of disbursing, imprest, and change funds be performed on a frequency determined by financial risk; that the DoD consider requiring assessments of cashless alternatives to minimize the amount of cash held outside the U.S. Treasury in the imprest funds; and that the DoD perform periodic reviews of cash verification reports to identify deficiencies in complying with DoD cash management standards. Management concurred with the recommendations that strengthen its management of cash resources. Management agreed to periodically perform cash management reviews of all disbursing, imprest, and change funds to ensure that effective practices are in place and to assess cashless alternatives to minimize the amount of cash held outside the U.S. Treasury. Management also agreed to perform periodic reviews of cash verification reports to identify deficiencies in complying with DoD cash management standards. Management nonconcurred with the recommendation to perform cash verifications on a frequency determined by financial risk. Instead, management will perform the verifications at least once each quarter as required by the Treasury Financial Manual.

**Report No. 94-094, "Vendor Payments-Washington Headquarters Services Support Services Division," May 10, 1994.** The report states that inadequate management oversight, inappropriate purchasing procedures, and a lack of adequate supporting documentation for purchases existed at the Support Services Division. As a result, the Support Services Division made no determination as to whether purchases and payments for goods and services were valid. Also, because of the lack of supporting documentation, we could not determine whether the allegations of improper activities were valid. The report recommends that the Director, Washington Headquarters Services, continue with the steps already taken toward improving the management of Support Services Division, implement management controls and establish procedures, emphasize regulatory compliance, and maintain adequate supporting documentation. Management concurred with the finding and recommendations

## Appendix B. Summary of Prior Audits and Other Reviews

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and implemented tighter management controls, emphasized regulatory compliance, and retained copies of supporting documentation for future reference.

### Air Force Audit Agency

**Air Force Audit Agency Report No. 93064003, "Control Over the Use of International Merchants Purchase Authorization Cards (IMPAC) for Small Purchases," June 17, 1994.** The report states that project managers did not receive adequate surveillance in IMPAC purchases, credit cards were not canceled when authorized cardholders transferred or retired, and merchant activity codes were not assigned to ensure that cardholders made only authorized purchases. The report also states that cardholders did not identify the requesters and recipients of goods and services purchased with the IMPAC cards and purchased equipment that was not authorized on organization tables of allowances. The report estimates that more than \$364,000 was paid from September 1992 through April 1993 without adequate assurance that the Government actually received the goods and services. The report also states that three installations did not pay IMPAC invoices in a timely manner and that two installations exceeded committed funds. Management concurred with the findings and agreed to revise IMPAC guidance to improve the effectiveness of management controls over IMPAC purchase authorizations, program surveillance, and payment certifications.

**Air Force Audit Agency Report No. 91064047, "Air Force Installation-Level Small Purchase Procedures," June 2, 1992.** The report states that BPAs were not established by the base contracting officers for 1,434 vendors and purchase orders were awarded instead for 6 or more of the vendors. Furthermore, BPAs were not established by the contracting officers for 15 of 17 locations that already used BPAs established with 178 vendors. The report states that at the installation level, contracting officers did not consolidate 172 purchase awards when consolidation was appropriate and that contracting and requisitioning unit personnel split single requirements into several purchases to keep them under the small purchase dollar limit. The report recommends that criteria be established to identify when BPAs are appropriate and that the Air Force require contracting officers to use the Base Contracting Automated System data base to identify vendors receiving multiple awards. The report also recommends that contracting officers determine whether pending purchase awards could be obtained through existing BPAs. Management concurred with the findings and agreed to implement the recommendations and report the actual amount of monetary benefits to the Air Force followup official.

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## Appendix C. Management of Imprest Funds

### Imprest Funds

The Defense Finance and Accounting Service manages DoD cash and related assets. As of June 15, 1995, records at the Defense Finance and Accounting Service Center in Columbus, Ohio, showed that Defense Logistics Agency organizations had 91 imprest funds valued at \$106,000.

We reviewed imprest funds, valued at \$21,450, at 7 of the 12 Defense Logistics Agency organizations. The remaining five organizations did not maintain imprest funds. The review disclosed no discrepancies in the handling of cash or in the processing of imprest fund transactions. Controls over the imprest funds were adequate in that vouchers were properly authorized and disbursements were supported by receipts. The cash balances maintained, however, were in excess of operational requirements. The average monthly use of the imprest funds was about \$1,680. The imprest fund balances maintained by the seven Defense Logistics Agency organizations averaged \$3,060. The DoD Financial Management Regulation 7000.14-R requires that funds held outside the U.S. Treasury be maintained at the absolute minimum required for operational needs.

We discussed the excess cash balances with responsible officials at the seven Defense Logistics Agency organizations where we reviewed imprest funds. The officials agreed to review fund balances and take action to reduce the imprest funds to the minimum level required for operational requirements. Additionally, Inspector General, DoD, Report No. 95-291, "Consolidated Report on the Cash Accountability in the Department of Defense, Disbursing, Imprest, and Change Funds," August 8, 1995, states that the Defense Finance and Accounting Service recognized that the amounts of cash maintained in imprest funds may not be at the minimum level required and is assessing the use of the IMPAC for small purchases to minimize the amount of cash held in imprest funds. We did not make any recommendations concerning the imprest funds because the Under Secretary of Defense (Comptroller) announced, in a memorandum dated March 28, 1996, that effective October 1, 1996, the use of imprest funds no longer will be authorized by DoD activities within the continental United States and, effective October 1, 1997, imprest funds also will not be authorized outside the continental United States.

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## Appendix D. Summary of Purchase Orders Used When a Less Expensive Purchasing Method Was Available

<u>Organization</u>	<u>Purchase Orders Reviewed</u>	<u>Less Expensive Method Available</u>	
		<u>Blanket Purchase Authority</u>	<u>Government Credit Card</u>
Defense Construction Supply Center	68	12	24
Defense Electronics Supply Center	68	18	19
Defense General Supply Center	68	3	35
Defense Industrial Supply Center	68	13	29
Defense Personnel Support Center- Clothing and Textile	68	3	44
Defense Personnel Support Center- Medical	68	15	43
<b>Total</b>	<b>408</b>	<b>64</b>	<b>194</b>

## Appendix E. Results of Testing of Controls Over Credit Card Purchases

<u>Organization</u>	<u>Sample Size</u>	<u>Purchase Not Approved</u>	<u>Purchase Not Documented</u>	<u>Receipt Not Documented</u>
Defense Contract Management District South	266	67	110	128
Defense Contract Management District West	203	0	18	93
Defense Distribution Region East	396	178	230	59
Defense Distribution Region West	572	0	369	111
Defense National Stockpile Center	12	7	6	0
Defense Personnel Support Center	133	72	22	118
Defense Reutilization and Marketing Service	161	0	7	161*
Defense Technical Information Center	128	0	0	0
<b>Total</b>	<b>1,871</b>	<b>324</b>	<b>762</b>	<b>670</b>
<b>Percent</b>		<b>17</b>	<b>41</b>	<b>36</b>

\*Organization procedures did not require documentation of receipt.

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## Appendix F. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount or Type of Benefit
A.1. and A.2.	Economy and Efficiency. Avoids unnecessary order processing costs.	\$78.3 million from the Defense Business Operations Fund put to better use during FYs 1996 through 2001.
B.1. and B.2.	Economy and Efficiency. Reduces invoice processing costs.	\$49.8 million from the Defense Business Operations Fund put to better use during FYs 1996 through 2001.
C.1. through C.3.	Management Controls. Helps prevent abuse of the IMPAC and streamlines the purchase process.	Nonmonetary.

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## **Appendix G. Organizations Visited or Contacted**

### **Office of the Secretary of Defense**

Deputy Under Secretary of Defense (Logistics), Washington, DC  
Director, Defense Procurement, Washington, DC  
Defense Technical Information Center, Fort. Belvoir, VA

### **Other Defense Organizations**

Defense Finance and Accounting Service Center, Columbus, OH  
Defense Logistics Agency, Alexandria, VA  
    Defense Contract Management Command, Alexandria, VA  
    Defense Contract Management District South, Marietta, GA  
    Defense Contract Management District West, El Segundo, CA  
Defense Construction Supply Center, Columbus, OH  
Defense Distribution Region East, New Cumberland, PA  
Defense Distribution Region West, Stockton, CA  
Defense Electronics Supply Center, Dayton, OH  
Defense General Supply Center, Richmond, VA  
Defense Industrial Supply Center, Philadelphia, PA  
Defense National Stockpile Center, Arlington, VA  
Defense Personnel Support Center, Philadelphia, PA  
Defense Reutilization Marketing Service, Battle Creek, MI

### **Non-Defense Federal Organization**

General Services Administration, Federal Supply Services, Washington, DC

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## **Appendix H. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition and Technology  
Deputy Under Secretary of Defense (Acquisition Reform)  
Director, Defense Procurement  
Director, Defense Logistics Studies Information Exchange  
Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Deputy Under Secretary of Defense (Logistics)  
Assistant to the Secretary of Defense (Public Affairs)  
Director, Defense Technical Information Center

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Finance and Accounting Service-Columbus Center

## **Other Defense Organizations (cont'd)**

Director, Defense Logistics Agency  
  Commander, Defense Contract Management Command  
    Commander, Defense Contract Management District South  
    Commander, Defense Contract Management District West  
  Commander, Defense Distribution Region East  
  Commander, Defense Distribution Region West  
  Commander, Defense Construction Supply Center  
  Commander, Defense Electronics Supply Center  
  Commander, Defense General Supply Center  
  Commander, Defense Industrial Supply Center  
  Commander, Defense National Stockpile Center  
  Commander, Defense Personnel Support Center  
  Commander, Defense Reutilization Marketing Service  
Director, National Security Agency  
  Inspector General, National Security Agency  
Inspector General, Defense Intelligence Agency

## **Non-Defense Federal Organizations**

Office of Management and Budget  
Technical Information Center, National Security and International Affairs Division,  
  General Accounting Office

Chairman and ranking minority member of each of the following congressional  
committees and subcommittees:

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on National Security, Committee on Appropriations  
House Committee on Government Reform and Oversight  
House Subcommittee on National Security, International Affairs, and Criminal  
  Justice, Committee on Government Reform and Oversight  
House Committee on National Security

## **Part III - Management Comments**

# Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD, SUITE 2533  
FT. BELVOIR, VIRGINIA 22060-6221

78 MAY 1996

IN REPLY  
REFERTO DDAI

MEMORANDUM FOR THE ASSISTANT INSPECTOR GENERAL FOR AUDITING,  
DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Small Purchases at Defense  
Logistics Agency Organizations

This is in response to subject draft report dated March 7,  
1996.

A handwritten signature in cursive script, reading "Jacqueline G. Bryant".

JACQUELINE G. BRYANT

Chief, Internal Review Office

Encl

AUDIT TITLE AND NO.: Small Purchases at Defense Logistics Agency Organizations  
(Project No. 5CH-0051)

FINDING A: Defense Logistics Agency contracting officers used purchase orders to make small purchases instead of using blanket purchase agreements or the International Merchant Purchase Authorization Card. Purchase orders were awarded for the following reasons:

- the Defense Logistics Agency included restrictions in automated purchasing systems that precluded otherwise eligible items from being procured using existing BPAs.
- the Defense Logistics Agency had not resolved certain processing issues that made contracting officers reluctant to use the IMPAC to purchase items for the DoD supply system.

As a result, the Defense Logistics Agency incurred additional administrative expenses of about \$2.3 million by awarding purchase orders instead of using existing BPAs and about \$8.3 million by awarding purchase orders instead of using the IMPAC. We estimated that for FYs 1996 through 2001, the Defense Logistics Agency could avoid administrative expenses of about \$19.7 million by using BPAs instead of purchase orders and about \$70.1 million by using the IMPAC instead of purchase orders.

DLA COMMENTS: Partially concur. We concur with the finding that too many individual purchase orders are awarded, but nonconcur in the contention that BPA calls and credit card (IMPAC) purchases are the preferred solution. We also nonconcur in the estimated savings that would result from using BPA calls and IMPAC purchases instead of purchase orders.

DLA is engaged in an ongoing major transition of its overall logistics support philosophy and methodology. For many years, our principle method of support was focused on individual NSNs. Typically, an individual stock number was held in inventory in a government-owned warehouse and stock for that NSN was periodically replenished based on historic demand data. Inventory managers and supply centers were graded on stock availability-- whether or not the item was in the warehouse when a customer requisitioned it. Everyone sought to maximize inventory to the extent funds were available. Since most of the NSNs, especially in the Hardware Centers are small dollar value spare parts and consumables, over 95% of the buys were small purchases. The largest segment of them were noncompetitive buys under \$2500.

Rather than seeking more ways to automate a higher proportion of the retail quantity purchases as advocated in the finding and recommendation, DLA is concentrating our limited (and shrinking) resources on reorienting overall logistics support. All of our activities are concentrating on establishing long term contractual instruments for major groups of items or entire catalogs. These arrangements are built around competitive source selection, electronic ordering and payment and reliance upon commercial inventory and distribution instead of government stock. This reoriented supply system allows the use of large purchase buying procedures to obtain better prices and service.

With regard to the savings projected in the report, the conversion to long term contracts reduces the population of candidates for conversion from purchase orders to BPA calls and IMPAC purchases.

## Defense Logistics Agency Comments

Final Report  
Reference

Revised

We contend that we derive more savings and customer service benefits (e.g. fresher products, faster delivery) from long term contracts with electronic communication and inventory reductions than the solution recommended in your finding. DLA has estimated cumulative savings in the POM from this conversion in excess of \$750 million for FY 1996 through FY 2001.

We also question the cost figures used to compute the savings for conversion from purchase orders to DMPAC purchases. The costs associated with purchase orders were from our DORO organization and included cost of item manager review, technical and quality referrals, preaward surveys, as well as post award costs such as contract administration, quality assurance and depot receiving. The cost figure for credit card purchases were not from a DLA study and we do not believe they included such costs, many of which would remain even if the buy was made with a credit card. This makes the comparison invalid. Additionally, the BPA cost figure was for Hardware Centers only, while the purchase order cost figure used included DPSC. Comparing the same universe (Hardware Centers only) reduces purchase order cost to \$124.50 and total projected savings by \$11.8 million.

### INTERNAL MANAGEMENT CONTROL WEAKNESS:

(x) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)

( ) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)

( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Hal Hermann, MMPP, (703)767-1354, May 1, 1996

REVIEW/APPROVAL: Margaret Janes, MMP, (703)767-1454, May 3, 1996

COORDINATION:

DLA APPROVAL: *JB, DDAT, 8 May 96*

AUDIT TITLE AND NO.: Small Purchases at Defense Logistics Agency Organizations  
(Project No. 5CH-0051)

**FINDING B:** Contractors supplying items under BPA orders issued by Defense Logistics Agency organizations submitted an invoice after each delivery instead of accumulating the invoices and submitting a monthly consolidated invoice. That situation occurred because contracting officers included invoicing guidance in the BPAs that was confusing and allowed BPA contractors to submit invoices upon delivery of the items ordered. As a result, from November 1994 through April 1995, the Defense Finance and Accounting Service, to whom the invoices were submitted for payment, incurred excess costs of about \$5.9 million for processing 158,433 invoices instead of the 7,446 invoices that would have been processed had the contractors accumulated the invoices and submitted monthly consolidated invoices. The Defense Finance and Accounting Service recovers the cost of processing invoices from its customers, including the Defense Logistics Agency. We calculated that from FYs 1996 through 2001, the Defense Logistics Agency organizations could realize a cost avoidance of about \$49.8 million by requiring BPA contractors to submit monthly consolidated invoices.

**DLA COMMENTS:** Nonconcur. Consolidated monthly invoicing for automated BPA calls is not as simple nor as beneficial as portrayed in the report or this finding. Single order invoicing facilitates use of electronic commerce/electronic data interchange (EC/EDI) that conforms to American National Standards Institute X.12 standards for EC/EDI. In addition, most of our BPA holders are small businesses (small purchases are reserved for small businesses) many of which would encounter cash flow hardship if forced to wait up to 60 days (30 days to billing and 30 days for disbursement) to receive payment. Some of our newer contractual arrangements for commercial products purchased by electronic ordering call for 15 day payment terms. Requiring consolidated monthly invoicing would represent a step backward.

The calculation of savings presented in the report from consolidated invoicing assumes a constant DFAS price per invoice regardless of the number of items, lines, orders or BPA calls on each invoice. This is not a valid assumption. DFAS cost and billing uses a methodology where the total DFAS operating costs are divided by the number of invoices processed to obtain the cost per invoice. Reducing the number of invoices but increasing the amount of work per invoice to reconcile multiple lines or orders will not result in the straight line decrease presented in the report. Fixed and semi-variable operating DFAS costs would be spread over a smaller number of invoices, increasing the cost per invoice. The variable cost would also increase for the more complex invoices. While some amount of savings would result, a straight line calculation is far too optimistic. Concentration on reengineering the payment process to use automated and electronic procedures would appear to have a much better payback.

## Defense Logistics Agency Comments

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### INTERNAL MANAGEMENT CONTROL WEAKNESS:

- (x) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)
- ( ) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.)
- ( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Hal Hermann, MMPP, (703)767-1354, May 1, 1996

REVIEW/APPROVAL: Margaret Janes, MMP, (703)767-1454, May 3, 1996

COORDINATION:

DLA APPROVAL: *JA*, DDAI, 8 May 96

AUDIT TITLE AND NO.: Small Purchases at Defense Logistics Agency Organizations  
(Project No. 5CH-0051)

FINDING C: The eight Defense Logistics Agency organizations where we reviewed IMPAC purchases were generally managing the purchases in an efficient and effective manner. However, at seven of the eight organizations, the procedures for processing the purchases needed improvement. The procedures needed improvement because IMPAC cardholders did not always adhere to guidance from the Defense Logistics Agency and their own organizations on obtaining purchase approval and documenting purchase and receipt of items charged to the IMPAC. Additionally, some organizational-level guidance was not clear concerning documentation required for IMPAC purchases. As a result, the Defense Logistics Agency organizations had no assurance that items charged to the IMPAC were purchases by the actual cardholders or that the items were needed and received by the organization.

DLA COMMENTS: Concur

INTERNAL MANAGEMENT CONTROL WEAKNESS:

( ) Nonconcur. (Rationale must be documented and maintained with your copy of the response.)

( X ) Concur; however, weakness is not considered material. (Rationale must be documented and maintained with your copy of the response.) Actions described in DLA comments on Recommendations C.1, C.2, and C.3 will correct the weaknesses noted in this finding.

( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Don Riley, MMPP, (703)767-1469, May 1, 1996

REVIEW/APPROVAL: Margaret Janes, MMP, (703)767-1454, May 3, 1996

COORDINATION:

DLA APPROVAL:

*JR, DDAI, 8 May 96*

AUDIT TITLE AND NO.: Small Purchases at Defense Logistics Agency Organizations  
(Project No. SCH-0051)

RECOMMENDATION A1: We recommend that the Director, Defense Logistics Agency facilitate the use of blanket purchase agreement orders and other methods less costly than purchase orders for procuring items meeting the simplified acquisition threshold. Specifically,

- a. Modify the Standard Automated Material Management System Automated Small Purchase System to allow blanket purchase agreement orders to be generated that include requirements for Government inspection and acceptance at the point of origin. If the Standard Automated Material Management System Automated Small Purchase System cannot be so modified:
- b. Implement a procurement method that is less costly than purchase orders to procure the items and to notify contractors and the Defense Contract Management Command of the requirement for inspection and acceptance at the contractors' facilities.
- c. Modify the Standard Automated Material Management System Automated Small Purchase System to allow blanket purchase orders to be generated that include emergency requirements. If the Standard Automated Material Management System Automated Small Purchase System cannot be so modified:
- d. Implement a procurement method that is less costly than purchase orders to procure the items and to notify the contractors and the Defense Contract Management Command of the requirement to respond within 4 hours to the emergency procurements.
- e. Evaluate other criteria incorporated in the Standard Automated Material Management System Automated Small Purchase System that restrict the use of blanket purchase agreement orders and eliminate all unnecessary criteria.

DLA COMMENTS: Nonconcur. As discussed in our response to the finding which resulted in the recommendation, DLA time, talent, and resources are focused on moving away from a logistics system based on generating hundreds of thousands of small purchases, especially noncompetitive automated BPA calls. A recent unpublished study by our Operations Research Office (DORO) found that the price of the same items purchased by purchase order averaged about 18% less than through the automated BPA system. Savings in administrative costs projected by the report would be more than offset by just a 5% increase in item prices.

The use of automated BPA calls for origin inspected purchases, DCMC administered orders, and emergency procurements would be especially difficult to implement in that an automated BPA call system would require generation of paper copies for mailing to DCMC, thus negating a significant portion of savings. It also would require addition of a new data field for "place of inspection." In the case of emergency procurements, the SAMMS-based automated system is a batch process system, not designed to react in four hours. Overall system architecture would have to change to allow such orders.

DISPOSITION: Action is considered complete.

ACTION OFFICER: Hal Hermann, MMPP, (703)767-1354, May 1, 1996

REVIEW/APPROVAL: Margaret Janes, MMP, (703)767-1454, May 3, 1996

COORDINATION:

DLA APPROVAL:

*JBT, DDAI, 8 May 96*

## Defense Logistics Agency Comments

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AUDIT TITLE AND NO.: Small Purchases at Defense Logistics Agency Organizations  
(Project No. 5CH-0051)

Recommendation A2: We recommend that the Director, Defense Logistics Agency develop and provide to contracting officers procedures that:

- a. Meet the information needs of the DoD supply system.
- b. Allow the use of the International Merchant Purchase Authorization Card to purchase items for the DoD supply system.

DLA COMMENTS: Nonconcur. As discussed in the findings section, our efforts are focused on development of long term contracts with electronic features to include fund transfer. The IMPAC system is not designed for use in the central wholesale supply system but rather for local retail purchasing. Development of programming and procedures to facilitate its use for central supply system purchases would serve little purpose other than to privatize the DFAS payment function. We see little payback in comparison to reengineering the supply system.

DISPOSITION: Action is considered complete.

ACTION OFFICER: Hal Hermann, MMPP, (703)767-1354, May 1, 1996

REVIEW/APPROVAL: Margaret Janes, MMP, (703)767-1454, May 3, 1996

COORDINATION:

DLA APPROVAL: *JBA, ODAI, 8 May 96*

AUDIT TITLE AND NO.: Small Purchases at Defense Logistics Agency Organizations  
(Project No. 5C11-0051)

RECOMMENDATION B1: We recommend that the Director, Defense Logistics Agency, issue guidance for contracting officers to modify invoicing guidance in their blanket purchase agreements to make it clear that contractors are required to accumulate invoices and submit consolidated invoices monthly to the Defense Finance and Accounting Service for payment.

DLA COMMENTS: Nonconcur. As discussed in the finding leading to this recommendation, the problems created by this proposed change would outweigh the savings which are overstated in the draft report.

DISPOSITION: (x) Action is considered complete.

ACTION OFFICER: Hal Hermann, MMPP, (703)767-1354, May 1, 1996

REVIEW/APPROVAL: Margaret Janes, MMP, (703)767-1454, May 3, 1996

COORDINATION:

DLA APPROVAL:

*JA, DDAI, 8 May 96*

## Defense Logistics Agency Comments

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**AUDIT TITLE AND NO.:** Small Purchases at Defense Logistics Agency Organizations  
(Project No. 5CH-0051)

**RECOMMENDATION B2:** We recommend that the Director, Defense Logistics Agency, issue guidance for contracting officers to include a review of invoicing procedures in their annual reviews of random samples of blanket purchase agreement files to validate that contractors are following the authorized invoicing procedures.

**DLA COMMENTS:** Nonconcur. Since we do not support recommendation B1, this recommendation is unnecessary.

**DISPOSITION:** Action is considered complete.

**ACTION OFFICER:** Hal Hermann, MMPP, (703)767-1354, May 1, 1996

**REVIEW/APPROVAL:** Margaret Janes, MMP, (703)767-1454, May 3, 1996

**COORDINATION:**

**DLA APPROVAL:** *[Signature]*, DDAJ, 8 May 96

**AUDIT TITLE AND NO.:** Small Purchases at Defense Logistics Agency Organizations  
(Project No. SCH-0051)

**RECOMMENDATION C1:** We recommend that the Director, Defense Logistics Agency issue guidance to Defense Logistics Agency organizations requiring supervisory approval of International Merchant Purchase Authorization Card purchases, cardholder documentation that the purchases were initiated, and requester receipt of the items purchased.

**DLA COMMENTS:** Concur. Publication of DLAD 4105.3 and DLA Form "Request for Supplies/Services" (copies attached) accomplish this recommendation. DLAD 4105.3 was published on 13 October 1995. In addition, this information is provided during cardholder training sessions. DLA also conducts Procurement Management Reviews to ensure adherence to DLAD 4105.3. A PMR was conducted at DRMS in April 1996.

During a meeting held on 11 & 12 April 1996 with DLA field activity Policy Chiefs, this subject was again addressed. The DLA form "Request for Supplies/Services" was distributed at that meeting.

**DISPOSITION:**

( ) Action is ongoing. Estimated Completion Date:  
(x) Action is considered complete.

**ACTION OFFICER:** Mikki Underwood, MMPPB, (703)767-1447, May 1, 1996

**REVIEW/APPROVAL:** Margaret Janes, MMP, (703)767-1454, May 3, 1996

*gjs, 8 May 96*

\*DLAD 4105.3 not included. Copy available upon request.

## Defense Logistics Agency Comments

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AUDIT TITLE AND NO.: Small Purchases at Defense Logistics Agency Organizations  
(Project No. SCH-0051)

RECOMMENDATION C2: We recommend that the Director, Defense Logistics Agency adopt the form used by the Defense Technical Information Center or develop a similar form for use by Defense Logistics Agency organizations to control and document International Merchant Purchase Authorization Card purchases.

DIA COMMENTS: Concur. See response to Recommendation C1.

DISPOSITION: Action is considered complete.

ACTION OFFICER: Mikki Underwood, MMPPB, (703)767-1447, May 1, 1996

REVIEW/APPROVAL: Margaret Janes, MMP, (703)767-1454, May 3, 1996

COORDINATION:

DLA APPROVAL: *JZ, DDAI, 8/7/96*

**AUDIT TITLE AND NO.:** Small Purchases at Defense Logistics Agency Organizations  
(Project No. 5CH-0051)

**RECOMMENDATION C3:** We recommend that the Director, Defense Logistics Agency review simplified acquisition procedures as part of its management control program self-evaluation.

**DLA COMMENTS:** Concur. Credit card purchases are a part of DLA's simplified acquisition self evaluation. A letter reminding all buying activities that their self-evaluations must include credit card purchases will be issued by 31 July 1996.

**DISPOSITION:**

- ☒ Action is ongoing. Estimated Completion Date: 31 July 1996  
☐ Action is considered complete.

**ACTION OFFICER:** Don Riley, MMPP, (703)767-1469, May 1, 1996

**REVIEW/APPROVAL:** Margaret Jones, MMP, (703)767-1454, May 3, 1996

*JB, ODA, 8 Nov 96*

# Defense Logistics Agency Comments

<b>REQUEST FOR SUPPLIES/SERVICES</b>					Control No.	
TO:		THRU:		FROM:		DATE:
<b>PART I - List Supplies/Services Below (Continue on Plain Sheet if Necessary)</b>						
FOR:		DELIVERY TO:			NO LATER THAN:	
Stock No.	Mfg. Part Number	Description Of Material Or Service	Quantity	Unit Of Issue	Estimated Unit Price	Estimated Total Cost
Suggested Source (Include Phone Number, Address, & poc)						Total
Justification or Purpose. Cite Adverse Impact if Not Purchased. (Continue on Plain Sheet if Necessary):						
I CERTIFY THAT FUNDS ARE AVAILABLE: _____						
Date:	Type Name, Title & Phone No. Of Requester:			Signature:		
Date:	Type Name & Title of Supervisor			Signature:		
<b>SPECIAL AUTHORIZATIONS</b>						
Date:	ADP/Telecommunications Official (for ADP related purchases)			Signature:		
Date:				Signature:		
Date:	File Equipment			Signature:		

Previous Editions Obsolete

<input type="checkbox"/> Approved/Disapproved  <input type="checkbox"/> Returned without action. Insufficient justification.  <input type="checkbox"/> Other
<div style="display: flex; justify-content: space-between; margin-top: 20px;"> <div style="border-top: 1px solid black; width: 60%;"></div> <div style="border-top: 1px solid black; width: 20%;"></div> </div> <div style="display: flex; justify-content: space-between; margin-top: 5px;"> <span>Approving Official</span> <span>Date</span> </div>
<b>PART III - TO BE COMPLETED BY THE CARDHOLDER</b>
<input type="checkbox"/> All Mandatory Sources Considered.  <input type="checkbox"/> Order Placed. Item To Be Delivered _____ <div style="text-align: center; font-size: small;">Date</div>  <input type="checkbox"/> Repair Call Placed _____ <div style="text-align: center; font-size: small;">Date</div>
<div style="border-top: 1px solid black; width: 60%; margin: 0 auto;"></div> <div style="margin-top: 5px;">Signature of Card Holder &amp; Date</div>
<b>PART IV - TO BE COMPLETED BY REQUESTOR</b>
<input type="checkbox"/> Accept Supplier/Services. (Signed repair order must be attached)  <input type="checkbox"/> Do Not Accept Supplier/Services. Explain (Continue on plain sheet if necessary)
<div style="border-top: 1px solid black; width: 60%; margin: 0 auto;"></div> <div style="margin-top: 5px;">Signature and date of person receiving order</div>
<div style="margin-bottom: 10px;">Receiver for</div> <input type="checkbox"/> Requestor  <input type="checkbox"/> Accounting Property Control Official  <input type="checkbox"/> Other - Please Indicate _____

## **Audit Team Members**

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## INTERNET DOCUMENT INFORMATION FORM

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**C. Report's Point of Contact: (Name, Organization, Address, Office  
Symbol, & Ph #):** OAIG-AUD (ATTN: AFTS Audit Suggestions)  
Inspector General, Department of Defense  
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